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<p>Discussion of Current Transportation and Logistics Issues in the Gaza Strip</p>

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TO THE

USAID MISSION TO THE WEST BANK AND GAZA
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1. Current Status of Trade Barriers

Prior to the arrival of Mr. Arnold in Israel, I interviewed Mr. Khader and representatives of various private sector firms that were still involved in transporting goods in/out of Gaza through Karni. I also met with Palestinian Customs and PIEFZA officials in the West Bank and Gaza.

Current Situation

Since my last mission to WB/G over 1.5 years ago (i.e. prior to the latest Palestinian uprising which began in September 2000), the Israeli Government for all intents and purposes has imposed a trade and economic embargo on the Palestinians in the West Bank and Gaza.

The volume of trade entering Gaza has declined significantly over the past 18 months. Clear and reliable statistics on the volume and value of trade were not available during the mission, but it is clear that imported raw materials such as textiles/fabrics for use in production and re-export of finished garments have all but stopped. Imports of consumer goods, processed foods, pharmaceuticals, steel, etc. directly from third countries have declined significantly in parallel with reduced economic activity caused by risk and uncertainty. Imports from Israel have also declined significantly reflecting hesitancy of Palestinian businessmen to contract with their Israeli counterparts. However, approximately 50% of all goods entering Gaza originate from Israel continue to be purchased through Israeli agents.

As an indication of the reduced volume of trade entering Gaza, prior to the uprising Israeli authorities had reported that an average of 800 truckloads were entering Gaza through Karni each day. Currently, a total of less than 500 trucks in-bound and out-bound are processed through Karni. Of this total number, Palestinian Authorities stated that currently 70% of cargo is in-bound and only 30% are out-bound. On slowdown days, only 35-70 truckloads are allowed to enter Gaza through Karni. This is a huge reduction in the volume of cargo being processed at Karni when one takes into account that prior to the uprising, cargo was allowed to enter Gaza through three entry points (i.e. Rafah, Erez Checkpoint and Karni). Since the uprising, all cargo destined for Gaza must enter only through Karni crossing.

Since the uprising, Palestinian importers are facing significantly higher costs to import goods into Gaza. These costs result from significant increases in cargo dwell times at Ashdod Port and Karni checkpoint, higher fees/costs associated with Israeli Security and Customs inspection, and higher freight/transport costs from Ashdod Port to Karni.

The following summarizes current trade and transport barriers faced by Palestinians and offers solutions. The deteriorating situation was communicated to USAID officials in Tel Aviv, as well as summarized to Palestinian officials during workshops in West Bank and Gaza.

Imports through Ashdod Port to Gaza

Currently, shipments destined for West Bank/Gaza are not off-loaded and separated/stored in special location within the Port. All WB/G destined cargo is instead unloaded and stored intermingled Israeli cargo. To avoid delays and extra costs, most Palestinian traders have their cargo

un-stuffed from containers and placed in one of the port warehouses to avoid expensive container storage charges. Warehouse storage costs are applied 5 days after arrival.

Although port charges and handling charges have remained unchanged for both Israeli and WB/G destined goods, it is understood that Palestinian cargo is frequently given a lower priority in terms of handling of containers, processing of documentation and physical inspection. One manufacturer of garments at the Gaza Industrial Estate (GIE) stated that his last consignment of fabrics/textiles into the GIE was held up in Ashdod port for almost 3 months awaiting clearance by Israeli Authorities. This resulted in significant storage costs as well as significantly delayed the delivery of the required raw materials required to manufacture the export consignment. As a result of these delays, the completion of the entire order was delayed beyond the contracted delivery date and the overseas customer refused to accept the finished garments.

Under existing Agreements and Protocols, Israeli Customs is responsible for all clearance formalities related to Palestinian imports and collects the duty/VAT on behalf of the Palestinian Authority. These revenues are to be transferred to the Palestinian Authority. Palestinian Authority officials state that since the uprising the Israeli Government has suspended all revenue transfers to the Palestinian Authority and that the amount of revenue held by the Israeli Government is over US\$500 million. This has no doubt had a significant impact on the Palestinian Authority's financial ability to provide basic services to its citizenry.

Approximately 300 Customs brokers are currently licensed by Israeli Customs to prepare and electronically file customs declarations into the Israeli Customs computer system on behalf of both Israeli and Palestinian traders.

Palestinian traders complain that all customs brokers are Israelis, and that few of them specialize in handling Palestinian imports/exports. None of these Israeli customs brokerage firms operate satellite offices in the West Bank or Gaza to facilitate business communication with Palestinian traders.

Palestinian traders report that since the uprising Israeli Customs subjects Palestinian customs declarations to extremely high levels of scrutiny and that even minor clerical errors in documentation results in immediate rejection and further cargo delays. No data was available on declaration processing times/reject rates during the mission.

Palestinian traders also complain that Israeli Standards Institute requirements/laboratory certifications have also become more stringently enforced and are a major source of delay and cost since the outbreak of the uprising.

All imported cargo destined for the West Bank or Gaza is subjected to 100% physical inspection by Israeli Security and Customs at Ashdod Port (i.e. removal from the container and X-Raying of all cargo). Traders are required to pay for the cost of container movements, as well as cargo handling/un-stuffing and re-stuffing if necessary. Palestinian traders reported that they were experiencing increasing levels of cargo pilferage and damage as a result of these inspections. Traders expressed concern that they had little recourse to Israeli Authorities to redress such occurrences.

Most Palestinian traders have their cargo un-stuffed from sea containers at Ashdod port, as opposed to having it more efficiently transported in the original container to the final destination in Gaza. This is due to the fact that containerized goods must be un-stuffed again at Karni checkpoint for a second security inspection before being allowed to enter Gaza. Most un-stuffed cargo arriving at Karni from Ashdod port is subject to re-inspection. It is understood that conference shipping lines who own the containers now are charging a surcharge/bond on any container entering Gaza or the West Bank. This reflects the risk of containers not being returned to Israel. If a sealed container arrives from Ashdod and is to enter Gaza, Karni officials check that the seal is still intact and matches the transit documentation. They then supervise the off-loading of the container from the flatbed truck into a sterile 'hook and hook' open box. The container inside the open box may then be placed in the sterile area and the doors closed. A Palestinian truck is then allowed to remove the open box and the container. No flat bed trailers or Israeli trucks are allowed to enter/be exchanged with those inside Gaza. No stuffed containers are currently allowed out of Gaza (only empty containers) are allowed).

A similar situation exists for cargo destined for Gaza originating in the West Bank or Jordan. All cargo arriving at Karni from the West Bank is subject to 100 % inspection. It is first inspected at checkpoints or Allenby Bridge, then re-inspected at Karni before being allowed to enter Gaza. It is interesting to note that cargo sourced within Israel is not subject to inspection either in Israel or at Karni before entering Gaza and is also given priority clearance into Gaza. Normally such cargo can pass through Karni in less than 15 minutes (i.e. the time it takes to off-load it from the trucks and pass it through the wall).

All cargo destined for Gaza must now be carried on Israeli-plated trucks to Karni crossing. Since the uprising, Israeli Authorities are no longer allowing Palestinian plated trucks to carry transit goods. Palestinian traders lament that the cost to transport goods from Ashdod port to Karni crossing has increased 200- 300% and that they have no option but to pay these inflated prices. Israeli truckers state that the higher charges reflect the increased security risks and costs associated with long queues, dwell times and closures which their trucks and drivers frequently experience on the Israeli side of the Karni crossing. There is no physical escorting or surveillance over Israeli trucks carrying transit goods from Ashdod to Karni. It is understood that maximum time limits and approved transit corridors to complete transit movements are monitored by Israeli Authorities.

Despite the reduced volumes of cargo entering Gaza, Palestinian traders lament that long queues, cargo dwell times, work slowdowns and closures at Karni is severely impeding cargo movements into Gaza. It is not unusual for up to 200 trucks to be queued/waiting on the Israeli side of Karni for their turn to off-load their cargo. Faced with this congestion on the Israeli side of Karni, a Karni Logistics Facility has been created there. For a fee of approximately twice the Karni handling fees, this facility allows trucks to 'jump the queue' and unload their cargo inside the facility. The facility then arranges for the cargo to get priority processing through Karni. The facility is located nearby the wall and therefore cargo can be moved to the X-Ray machines or the wall without additional loading/handling (i.e. cargo moves directly by forklift to the wall). This facility allows Israeli trucking companies to quickly off-load their cargo, thereby freeing up its trucks/drivers. A number of reports were received regarding opportunities to pay bribes to

Logistics Facility staff and Israeli Airport Authority officials to ensure cargo is given priority treatment.

Israeli Airport Authority staff collects Karni cargo processing fees on the Israeli side of the Karni wall. Although an agreement exists whereby 40% of the fees collected by the Israelis are to be transferred to the Palestinian Authority (to finance the Preventative Services), since the beginning of the uprising transfer of funds has ceased. Palestinian Authority staff stated that approximately US\$15 million in Karni fees are outstanding.

It is important to note that work slowdowns and closures of the Karni terminal by Israeli Authorities are a regular occurrence that coincides with the now daily incidents of violence and overall political situation in the country. Restricting or stopping the movement of goods through Karni is yet another tool used in the economic/trade embargo on the PA.

Once cargo has been passed through the Karni wall, Palestinian Preventative staff organizes the loading of the cargo onto Palestinian trucks that have been waiting under the old hangar. Once loaded, the trucks are required to park under the hangar roof and present documentation to various Palestinian Authority ministries (i.e. Customs, Security, Health, Agriculture, Trade and Commerce, Supply) located in a row of small, poorly maintained shacks behind the hangar. Officials in these ministries receive the documents through the windows and undertake separate document checks before stamping the cargo cleared. Physical inspections of cargo are not normally undertaken. This document review process can take a total of 30-60 minutes, assuming no irregularities are found. It is unclear why these various agencies have not been located in the newly constructed Preventative Security building near the Karni wall, such that document reviews/approvals could be given at the same time as the truck is being loaded. Once all ministries have approved the clearance of the goods into Gaza, the truck is allowed to depart from Karni and proceed directly to the importer's premises. Documents must be shown at the exit gate to security staff.

Although a new refrigerated warehouse has been constructed near the Palestinian Preventative Service building and is operated by the Palestinian Preventative Services, officials state that it is not operating due to insufficient demand.

The above trade barriers are being justified by Israeli Authorities on security grounds. While there may be merit in this justification, it is also clear that the systematic trade embargo is designed to cause economic hardship to Palestinian traders, forcing them to purchase essential goods from Israeli middlemen who can import in quantity, de consolidate shipments and export smaller quantities into Gaza and West Bank at inflated prices. Officials from both sides of the Karni crossing maintain a 'business-like' relationship under frequently very trying conditions. The Israelis view Karni as a security necessity, a tool to apply economic sanctions, and no doubt a way of generating monopoly rents for Israeli commercial interests. Palestinian officials appear to view Karni as both a business and employment opportunity. It is clear that the current situation is creating significant opportunities for payment of rents to both sides in return for facilitated cargo movement. In light of its strategic importance, both sides have been treating Karni, and indeed the GIE as a whole, as a 'demilitarized zone'.

Exports from Gaza

The main exports of fruits, vegetables and cut flowers from Gaza have been significantly reduced since the latest uprising commenced. Exporters reported that due to closures and delays at Karni and the Air/Port, export markets to third countries have been closed. These Gaza products are frequently sold to Israeli producers only if their domestic supplies are insufficient to meet market demand. Such Gaza products are therefore graded and consolidated with Israeli produce inside Israel before being exported to foreign countries. A manufacturer of garments in the GIE reported that they had stopped production of garments after it had taken 3 months to clear the fabrics through Ashdod and a further 3 weeks to export the garments through Tel Aviv airport. Another exporter of cut flowers stated that it had a number of its consignments delayed at Tel Aviv airport due to delays in security inspection or because it had not received priority loading onto aircraft. Consequently, the flowers had dried out and were not accepted by the European buyer.

Palestinian officials reported that the Duty Suspension Regime which had been developed and implemented with Israeli Customs consent to facilitate exports (by exempting payment of import duty/tax on imported raw materials) had not been halted by Israeli authorities, but that under the present situation there was simply no longer any manufacturing in Gaza/GIE to warrant its use.

All exports from Gaza are subject to 100% physical inspection/x-raying by Israeli authorities at Karni. Truckloads of produce are required to wait under the old hangar roofs waiting their turn to off-load cargo at the Karni wall. Palestinian Preventative Services coordinate with their Israeli Airport Authority officials the off-loading and presentation of such goods for X-Raying. Israeli authorities have to date refused to install container-sized X-Ray equipment, instead relying on pallet-sized machines. The off-loading, X-Raying and re-loading of fragile and time-sensitive fruits, vegetables and flowers exposed to the elements at Karni can result in significant damage to these goods.

Some products are being exported reasonably efficiently from the West Bank. For example, Nassar Jerusalem stone/marble (to the European, Asian and North American markets) and biscuits (to the Arab markets in the middle-east). Special arrangements have been worked out by Nassar Stone with the Israeli Authorities to minimize double inspections and transit related constraints.

Recommendations

- Negotiate with Israeli Authorities the establishment of a separate secure container yard/warehousing facility at Ashdod port whereby all Palestinian destined cargo would be processed. Such a dedicated would facilitate cargo clearance and transit operations and could include:
- Dedicated customs brokerage service
- Joint Customs/Palestinian cargo inspection facilities equipped with X-Ray equipment to reduce cargo handling, pilferage

- Secure and cost-effective warehousing
- Joint Israeli/Palestinian transit coordination
- Logistics liaison office linked with offices in Gaza and West Bank

Such dedicated cargo facilities are currently in use to service a number of land-locked countries in East Africa (e.g. at the port of Dar Es Salam, Tanzania, dedicated dry ports are operational to facilitate cargo movements to land-locked countries of Zambia and Malawi. Similar operations exist at Mombasa, Kenya for Ugandan and Rwandan bound cargo.

- Negotiate with Israeli Authorities the possibility of licensing a limited number of jointly owned/operated Palestinian/Israeli customs brokerage firms to handle all Customs related formalities related to Palestinian imports/exports.
- Investigate/quantify causes of cargo delays associated with Israeli Standards Institute inspections/laboratory tests, and develop solutions to minimize such delays/costs for Palestinian importers.
- Negotiate with Israeli Security/Customs authorities a protocol to eliminate duplicate physical inspections of goods (i.e. inspections would only be undertaken at the port of arrival, not undertaken again at the Karni checkpoint). As the security situation normalizes, negotiate the return to cargo inspections inside the GIE.
- Examine the fee structure and establish maximum charges for Israeli trucking companies delivering cargo from Ashdod Port to Karni.
- Negotiate with Israeli authorities the normalization of transit procedures whereby Palestinian trucks are allowed to pick-up and deliver goods arriving at Ashdod port to Gaza/West Bank. If and when Palestinian sovereignty is obtained, a comprehensive transit control system will need to be designed and implemented including such features as: agreement on dedicated transit corridors; agreement on maximum time limits to complete transits; transit bonding requirements; truck escorting and/or surveillance mechanisms; automated track and trace capabilities e.g. satellite tracking/bar-code readers on container seals; automated customs transit systems to control transit movements so as to identify trucks requiring immediate follow-up.
- Create a network of logistics facilities which would bring under one roof for Palestinian traders in the West Bank and Gaza all parties involved in the trade logistics change i.e. representatives of freight forwarders, carriers (trucking companies, airlines and shipping lines), insurance companies, customs brokers and commercial banks. This network of logistics centers should be linked electronically to allow the free flow of information regarding trade, transport and Customs requirements. The locations of these logistics centers could include Ashdod, Haifa, Tel Aviv airport, Karni, Allenby Bridge and possibly Eliat.

- Implement a General Logistics Facility

The short term purpose of such a facility would be to facilitate the grading, consolidation, inspection and stuffing of perishable export cargo into sealed containers for transport the port of exit/export. If the facility is to be constructed, it is critical that this facility be located near the Karni wall to permit Israeli inspections at the facility and to ensure there is no need to double handle non-containerized cargo from the Facility to the Karni wall.

The GLF should be designed with the flexibility to be used as a Customs Bonded Warehouse for temporary storage and clearance of imports if and when Palestinian sovereignty is achieved. Imported goods could remain in the bonded warehouse duty/tax free until such time as the Palestinian importer wished to enter them into home consumption and pay the duties/taxes owing. The facility would need to accommodate clearance facilities for use by Palestinian Customs (i.e. customs long room for processing customs declarations; secure bonded warehousing; parking of trucks/containers while clearance formalities are undertaken; cargo inspection facilities).

During the mission, the proposed site of the GLF was assessed, along with the architectural designs for the warehouse, administration building and parking lot prepared by Universal Group and Louis Berger. The proposed site which PIEFZA had offered and upon which architects had commenced design of the facility was a narrow parcel of land currently occupied by the north half of the old airport hangar. This site is problematic for a number of reasons, but has been selected due to a lack of available alternatives. The following is a list of these design issues:

Site location/Distance from Karni Wall: I expressed concern regarding the appropriateness of the available location. The distance of the proposed site from the Karni may be perceived by Israeli Customs/Security as too far away from the Karni wall and therefore too high a risk for their staff perform cargo inspections. I also expressed concern that if Israeli Customs/Security did not agree to perform inspections at the GLF, the distance to carry the goods from the GLF to the Karni Wall was too great for movement by forklift and therefore would require a costly second handling of cargo.

Narrowness of proposed site: I expressed concern that the narrowness of the proposed site was negatively affecting the operational depth of the warehouse and the truck traffic flows. This has been mitigated in the design by include angled parking of trucks.

Parking for trucks outside the compound: There is a need to ensure that adequate truck parking exists outside the compound. Possible areas include a parking lane leading to the GLF entrance and/or parking under the existing hangar roof.

Container Storage Area: Concern was expressed that the area designated for container storage was not sufficient to actually be able to retrieve/load containers onto flat-bed trucks. It was recommended that empty containers be stored somewhere outside the GLF compound and that this area be used for temporary truck parking/inspection.

Narrowness of Warehouse: Due to the site constraint, the proposed warehouse is quite narrow for warehousing use (it will only 75 feet wide). This problem becomes more acute if there is to be an aisle running the length of the warehouse to move goods by forklifts for Israeli inspection/X-Raying and reloading onto out-bound trucks.

Inspections: Discussions need to be held with Israeli Customs/Security and Palestinian security regarding if and where inspections/X-Raying of goods are to occur. For example, it is possible that Israeli authorities may demand that all inspections be conducted in a secure area under their control at one end of the warehouse. This would require that goods be off-loaded at the Palestinian end of the warehouse, then moved by forklifts internally to the other for inspection and re-loading. Also, if Israeli security are to conduct inspections in the GLF, the location and type of the X-Ray machines to be used will need to be discussed. An option which should be considered is the use of mobile X-Ray machines that can scan an entire truck, thereby eliminating the handling and damage caused by using pallet-sized X-Ray machines. If this option were accepted, a location for such an X-Ray machine would need to be found on or near the GLF site. If Israeli authorities only want to use pallet-sized X-Ray machines, a decision will need to be made where these are to be installed and who will pay for them.

Security of Israeli drivers/trucks: It must be established whether Israeli drivers will agree to park their trucks next to Palestinian trucks/drivers in the current environment. In the short to medium term at least, separate bays at the warehouse would likely need to be reserved for Israeli trucks and separate waiting rooms built for drivers at each end of the warehouse.

Ventilation/AC: If the GLF is to be used for temporary storage and consolidation of such perishable exports as fruits, vegetables, flowers, etc. the warehouse needs to be kept well ventilated, with possibly even a chilled area if such produce must be kept for a day or two. All other areas of the building need to be well ventilated to ensure temperatures inside to not damage perishables even while being off-loaded, inspected and re-loaded.

Equipment to operate the warehouse (i.e. forklifts; X-Ray machines; container hoist trucks and/or lift bridges): A decision will need to be taken whether or not, and what warehousing equipment, will be provided the warehouse operator and inspection agencies.

Secure road around Karni to the GLF: It will be important that a secure road around the Karni wall be available for in-bound trucks and out-bound trucks. Under the present situation at least, Israeli trucks/trailers are not allowed to enter Gaza. Once the situation improves, it is likely that secured passage will be required to/from the GLF.

Leasing, Management/Operation of the GLF: Policy alternatives would need to be evaluated and decisions taken regarding:

- Who will regulate and management of the GLF (e.g. PIEFZA or another PA Agency) and what that regulatory function will be limited to;
- Who will operate/lease the warehousing (e.g. a PA Agency or a private sector warehouse operator);

- How the warehouse operator/lessee will be chosen (e.g. international competitive bid) and whether or not a joint Palestinian/Israeli firm should be a requirement;
- What contractual arrangement and incentives would need to be established to encourage a private sector operator to assume responsibility for warehousing operations and make investments in equipment (e.g. forklifts, handling equipment, weigh scales) and automated systems (i.e. inventory management and accounting systems). Note: It may be necessary to establish a system of financial incentives in the short to medium term which would come into effect if cargo business were to drop below a minimum volumes. Such incentives would need to provide some protection to the operator while at the same time encouraging productivity, efficiency and business growth;
- How the various inspection agencies would participate in management/operation, whether or not they will be responsible for supplying their own inspection equipment, what inspection/security protocols would need to be negotiated with Israeli Port Authority and Customs (e.g. sharing of inspection fees); and
- What fee structures for cargo warehousing, cargo handling and inspection, rental of office space by carriers, brokers and logistics providers would be negotiated, ideally in consultation with the private sector in Gaza.

2. Outcome of USAID and Stakeholder Presentations

I participated in presentations to USAID in Tel Aviv, the public and private sectors in Gaza City and Ramallah, and as well as attended two de-briefing meetings with USAID in Jerusalem. I also met with senior Palestinian Customs officials in Ramallah and Gaza (including customs officials still stationed at the GIE).

Neither of the presentations in Gaza or West Bank were particularly well attended by Palestinian officials or the private sector (less than 10 participants in Gaza and less than 25 in Ramallah) due to the deteriorating security situation/numerous road closures which prevented Palestinians from reaching the venues. Those Palestinians that did attend were very attentive and asked many questions, particularly about the proposed GLF. Indeed, the GLF in Gaza became the focus of most of the meetings, while other transportation-related observations and recommendations found in the Logistics Study received relatively little attention.

A number of PA officials stated that while a GLF in Gaza was important, a network of GLFs were needed in the West Bank to facilitate the transit movement of cargo between the West Bank and Gaza, as well as to Jordan and on-ward to other Arab States. Within this context, the importance of having in place an efficient and effective system to control transit movements was emphasized.

The Director General of the Palestinian Customs and Excise Department (Nassar Taboub) interjected during the presentation that the GLF should have the flexibility to enable Palestinian Customs to inspect and clear import cargo arriving into Gaza once a sovereign Palestinian state is created. He further offered to consult with Chairman Arafat regarding the need to convene a meeting with Israeli Security and Customs officials for the purpose of reaching a consensus, at least in principle, that Israeli Port Authority/Israeli Customs would perform inspections on exports at the GLF and that no additional inspections would be performed at Karni or the office of final export. Mr. Taboub also stated that the GLF in Gaza should be flexible enough to be used as a customs bonded warehouse, wherein goods could be stored temporarily and have their duties/taxes deferred until the importer was ready to enter them into home consumption.

During meetings with Mr. Taboub and his Deputy DG of Customs, a request was made for technical assistance from USAID to assist PA Customs officials to visit Amman, Jordan to examine the automated Duty Drawback system that USAID had financed for use by Jordanian Customs. Mr. Taboub also stated that Palestinian Customs had recently obtained an unsolicited proposal from Crown Agents to implement their automated TIPS system. Mr. Taboub remarked that Palestinian Customs currently have ASYCUDA operating in demonstration mode but that they will need assistance in deciding which automated system they should ultimately implement when there is a Palestinian State and Palestinian Customs must process its own import/export declarations and collect duty/tax on its own behalf.

3. Implementation Recommendations for Near-term Activities

A) Finalize the technical design details of the GLF, including:

- Administrative building internal layout (for use by Carriers, Shipping Agents, Customs Brokers, Insurance Companies, Commercial Banks);
- Entrance to compound and design of security booths;
- Public and staff parking at the Administrative Building;
- Truck parking outside and inside the GLF compound;
- Location for security checking of in-bound trucks to the GLF compound;
- Container storage area;
- Secure road connecting compound around Karni to Israel;
- Interior layout of warehouse;
- Cargo inspection area;
- Specifications for warehouse equipment;
- Define ventilation and chilling requirements

Consult and liaise with all potential users of GLF to ensure design details are clearly conveyed to Universal Group and Louis Berger and that the GLF's design is both efficient and effective.

Estimated LOE

1 person month for Customs/Trade Facilitation expert

1 person month for local Customs expert

Time frame

Immediate

B) Draft strategic and business plan to operationalize the GLF at Karni

i.) Evaluate policy alternatives with all interested stakeholders and prepare recommendations regarding:

- Who should regulate and management of the GLF and what that regulatory function will be limited to;
- Who will operate/lease the warehousing (e.g. a PA Agency or a private sector warehouse operator);
- How the warehouse operator/leasee will be chosen (e.g. international competitive bid), and whether or not a joint Palestinian/Israeli firm should be a requirement;
- What contractual arrangement and incentives would need to be established to encourage a private sector operator to assume responsibility for

warehousing operations and make investments in equipment (e.g. forklifts, handling equipment, weigh scales) and automated systems (i.e. inventory management and accounting systems). Note: It may be necessary to establish a system of financial incentives in the short to medium term which would come into effect if cargo business were to drop below a minimum volumes. Such incentives would need to provide some protection to the operator while at the same time encouraging productivity, efficiency and business growth;

- How the various inspection agencies would participate in management/operation, whether or not they will be responsible for supplying their own inspection equipment, what inspection/security protocols would need to be negotiated with Israeli Port Authority and Customs (e.g. sharing of inspection fees);
- What fee structures for cargo warehousing, cargo handling and inspection, rental of office space by carriers, brokers and logistics providers would need to be negotiated, ideally in consultation with the private sector in Gaza.

Estimated LOE

2 person months Customs/Trade Facilitation Expert

2 person months Logistics Expert

1 person month Local customs/trade expert

Time frame

Short term (month 3 - 5)

ii.) Discussing the draft Strategic Plan and Business Plan with all stakeholders and finalize Strategic Plan/Business Plan. Hold workshops/ meetings with stakeholders to resolve and reach consensus on all management, policy and operational issues:

- PIEFZA;
- Palestinian Customs;
- Palestinian Preventive Services;
- Israel Airport Authority;
- Israeli Customs;
- Karni Logistics Center;
- GIE enterprises;
- Potential warehouse operators of GLF; and,
- Potential carriers, brokers, shipping lines, commercial banks, etc. that would lease offices/operate from the Administrative Building.

Estimated LOE

1 person month Customs/Trade Facilitation Expert

1 person month Logistics Expert
1 person month Local customs/trade expert

Time frame

Medium Term (month 5 - 6)

C) Assist Palestinian Authorities in Implementing the GLF, including:

i.) Draft all legal documents, including international tenders for operation of warehouse; lease agreements; cost-sharing arrangements; MOU with Israeli Security /Customs Authorities; etc. Participate and advice Palestinian Authorities during negotiations and tender evaluation process.

Estimated LOE

3 person months - Local Lawyers
2 months - Customs/Trade Facilitation Expert
2 months - Logistics Expert
1.5 months - Local Customs/trade expert

Time Frame

Medium Term (month 6-9)

ii.) Undertake human resource analysis to operate GLF; develop organizational chart; define staff requirements; write job descriptions; determine grading and salary levels; advise on recruitment.

Estimated LOE

2.5 person month for HR expert
1 person month Customs/Trade Facilitation Expert
1 person month Logistics Expert

Time frame

Medium Term (month 9 - 12)

iii.) Prepare Standard Operating Procedure Manuals and Instructions for operation of GLF; train staff and private sector users as required.

Estimated LOE

2 person months Customs/Trade Facilitation Expert
2 person months Logistics Expert
1 person month Local Customs/Trade Expert

Time frame

Medium Term (months 13-15)

iv.) Develop Information Technology Strategy for GLF at Karni and linkages with the network of other GLF's in West Bank

- Define user requirements and specifications for automated system;
- Evaluate alternative commercially available software for warehouse inventory, accounting and billing; web-based information clearing house (i.e. to allow traders to obtain freight and insurance quotes from various shippers; learn the clearance status of their consignment; learn what new security or customs requirements exist; etc.);
- Analyze technical alternatives, including potential future linkages with automated systems being evaluated by Palestinian Customs (e.g. ASYCUDA; Crown Agents TIMS system) and/or Israeli Customs automated system which allows EDI interfaces with brokers; proprietary automated systems used by existing Israeli logistics companies; and,
- Prepare hardware, software and communications requirements and prepare cost estimate/budget to implement appropriate IT systems.

Estimated LOE

3 person months for IT/Logistics Expert

2 person months Customs/Trade Facilitation Expert

1 person month Logistics Expert

Time frame

Medium Term (months 14-16)

v.) Implement IT solutions - Install and undertake acceptance testing of hardware, software and telecommunications system; prepare user manuals; train users how to use automated system.

Estimated LOE

3-4 months IT Logistics Expert

Time frame

Medium Term (months 16 - 18)

vi.) Hands-on Implementation Support

Provide direct hands-on support during start-up of GLF facility

Estimated LOE

2 months IT logistics Expert

2 months Customs/Trade Facilitation Expert

2 months Local Customs/Trade Expert

Time frame

Medium Term (months 18 -20) - Coincides with estimated completion of construction of facility.

D.) Develop detailed implementation plan and budget estimate to roll-out of GLF's to other locations

- Evaluate alternative sites for GLF's (e.g. in Ashdod Port; Haifa Port; various West Bank locations; Allenby Bridge)
- Procure required lands
- Prepare architectural drawings
- Define IT requirements/specifications for transit control system
- Prepare implementation plan and budget estimates for consideration by donors.

Estimated LOE

3 months IT Logistics Expert

3 months Customs/Trade Facilitation Expert

2 months Local Customs/Trade Expert

Time Frame

Month 20-22

E.) Assist Palestinian Customs in preparing a comprehensive Strategic and Operational Plan

Plan would need to prepare Palestinian Customs to be able to respond to various scenarios which they could face in the future ranging from a continuation of the current customs union with Israel to full Customs control over goods if a sovereign Palestinian State were created.

This Strategic and Operational plan should address such issues as:

Strengthening the Legislative Framework - Assessment of existing laws, regulations and procedures and how these would need to be modernized/amended to fully support the various final status scenarios. Palestinian Customs laws would need to conform to final status agreements/protocols reached with the Israelis and would also need to conform to international best practices as set out in the World Customs Organization's Kyoto Convention.

Streamlining the Organizational Structure and Improving Human Resources - Assessment of existing organizational structures, staffing levels and deployment, then

preparation of a comprehensive plan to ensure that Palestinian Customs will be ready to assume increased responsibilities under the various scenarios.

The plan would include recommendations related to:

- New organizational structures;
- Staffing requirements and deployment;
- Job descriptions;
- Recruitment/staffing policies;
- Disciplinary measures;
- Remuneration; and,
- Development of a comprehensive training plan.

Consideration would be given to the advantages and disadvantages of creating a Revenue Authority which would combine the functions of Customs and Tax into a single agency outside the Civil Service.

Modernizing Customs Procedures and Controls - All existing Customs procedures and controls would be evaluated to assess the impact of the various scenarios on them, including such key procedures/controls as:

Regulations governing licensing of Customs Brokers - Currently all Customs brokers are licensed by Israeli Authorities. If a Palestinian State were created it is highly conceivable that legislation and supporting regulations would need to be designed setting out the professional qualifications, training and testing requirements, and liabilities/accountabilities applicable to having Palestinian licensed Customs Brokers.

Automated systems to control cargo reporting /manifesting - Currently manifest reporting and acquittal against declarations is undertaken solely by Israeli Customs at the Ports and Airports. In the future however, Palestinian Customs may need to assume responsibility for this important control function at Gaza Airport and Seaports, or any other location where cargo arrives inside a sovereign Palestinian State if one were created.

Goods declaration processing and accounting - Palestinian Customs needs assistance to assess the various alternative automated systems which have been proposed for processing import and export declarations, calculation of duties/taxes, accounting for revenues, and production of trade statistics. Palestinian Customs has received a number of offers to implement various automated systems, however Palestinian Customs does not have the technical competency to effectively evaluate each system and decide which it should adopt (e.g. ASYCUDA; TIMS). Technical assistance to evaluate these systems and develop an effective plan and budget to implement the one that best meets its needs is required.

Transit controls - It will be critically important that efficient and effective controls exist over the movement of trucks/cargo between the West Bank and Gaza through Israeli Territory, or from Gaza or West Bank to a Third Country. Currently all transits are controlled unilaterally by Israeli Customs. If a Palestinian State were created, a more collaborative transit system would need to operate. Such a system should apply transit procedures/controls which conform to the WCO's Kyoto Convention. Transit controls will need to be supported by an automated system which could be implemented at the various GLF's and ports/airports of arrival/export to allow Palestinian Customs to track cargo movements and follow-up on any missing/late trucks. Having an effective transit control system is vital to prevent smuggling and related damage to the Israeli and Palestinian economies.

Bonded warehousing - There are currently no bonded warehouses under the control of Palestinian Customs. If a Palestinian State were created, Palestinian importers would benefit greatly by being able to place imports into storage for a temporary period e.g. maximum 12 -18 months or until such time as they would like to enter the goods into home consumption. It is envisaged that bonded warehouses would need to operate in Gaza and the West Bank. The locations for such warehouses, regulations for licensing warehouse operators, procedures, systems and controls to be applied by Palestinian Customs, would need to be developed and implemented to support their operation.

Duty Suspension Regime - The duty suspension/exemption regime which was designed and implemented at the GIE prior to the latest uprising continues to exist (i.e. has not been terminated by Israeli Customs) however it is seldom used given the present constraints imposed on importing raw materials/exporting finished products from Gaza. Once the uprising has passed, this regime needs to be reintroduced, with refresher training provided to Palestinian enterprises. If a Palestinian State were created, the duty suspension regime would likely need to be tailor to reflect the increased responsibilities of Palestinian Customs.

Duty drawback scheme - Unlike the foregoing duty suspension regime wherein no duty/tax is collected on a pre-approved importer's raw materials destined to be manufactured into a finished good and re-exported, a duty drawback regime allows traders to obtain a refund on any duty/tax paid once the goods have been exported. Having access to a duty drawback scheme would significantly help smaller, less frequent importers that may not be exporting regularly or all of its imported raw materials. Design and implementation of a duty drawback system, possibly modeled after the Jordanian Customs automated duty drawback system which was financed by USAID, would significantly improve the competitiveness of Palestinian exporters. Note: Nassar Taboub requested that USAID finance a study tour to Jordan to examine the automated duty drawback system currently operated by Jordanian Customs.

Provision of Technical and Management Training - A comprehensive technical and management training plan is needed to ensure that all Palestinian Customs personnel have been given the knowledge to perform their functions effectively. It is understood that Jordanian Customs has agreed to provide some technical training to Palestinian Customs officials. This training needs to be supplemented with additional training available from external sources (i.e. customs expert trainers, WCO and WTO).

Definition of an infrastructure plan - A comprehensive infrastructure plan will be needed to ensure that Palestinian Customs can operate from basic offices and have equipment to perform its functions. If a Palestinian State is created, Customs offices may need to be constructed at major entry points into the West Bank and Gaza. In addition, supporting office equipment, computers telecommunication equipment, inspection aids, vehicles, etc. would be needed.

Recovery of outstanding duties/taxes currently withheld by the Israeli Government - Once the present uprising stops and relations between the PA and Israeli Government normalize, Palestinian revenues held by the Israeli Government will need to be transferred. It is possible that technical assistance may be required to ensure that all revenues are returned in a timely and complete fashion.

Estimated LOE - To undertake the proposed Strategic/Operational Plan
3 months Customs/Trade Facilitation Expert
2 months Local Customs/Trade Expert
2 months IT Logistics Expert

Time Frame
Immediate